

Calendar No. 705

106TH CONGRESS
2D SESSION**S. 2101****[Report No. 106-354]**

To promote international monetary stability and to share seigniorage with
officially dollarized countries.

IN THE SENATE OF THE UNITED STATES

FEBRUARY 24, 2000

Mr. MACK (for himself and Mr. BENNETT) introduced the following bill; which
was read twice and referred to the Committee on Banking, Housing, and
Urban Affairs

JULY 24 (legislative day, JULY 21), 2000

Reported by Mr. GRAMM, with an amendment

[Strike out all after the enacting clause and insert the part printed in *italic*]**A BILL**

To promote international monetary stability and to share
seigniorage with officially dollarized countries.

1 *Be it enacted by the Senate and House of Representa-*
2 *tives of the United States of America in Congress assembled,*

3 **SECTION 1. SHORT TITLE.**

4 This Act may be cited as the “International Monetary
5 Stability Act of 2000”.

1 **SEC. 2. FINDINGS; STATEMENT OF POLICY.**

2 (a) FINDINGS.—Congress finds that—

3 (1) monetary stability is a prerequisite for
4 strong long-term economic growth and increasing
5 standards of living;

6 (2) many emerging market countries lack mone-
7 tary stability and have therefore suffered economic
8 and financial problems that suppress economic
9 growth and living standards, including financial fra-
10 gility, inflation expectations that are built into labor
11 markets, and high and volatile inflation rates and in-
12 terest rates;

13 (3) many emerging market countries have used
14 pegged exchange rate systems to try to foster mone-
15 tary stability and have experienced temporary peri-
16 ods of higher economic growth and lower inflation
17 followed by drastic balance of payments problems,
18 steep devaluations, and major losses in international
19 reserves;

20 (4) emerging market countries that have adopt-
21 ed currency board systems have enjoyed higher rates
22 of economic growth and lower interest rates, al-
23 though interest rates have remained higher for loans
24 denominated in the domestic currency than in the
25 anchor currency;

1 (5) since the financial and economic crisis that
2 struck Asia in 1997, there has been growing inter-
3 national interest in official dollarization, whereby a
4 country would substantially or totally eliminate its
5 domestic currency and adopt the United States dol-
6 lar as legal tender;

7 (6) official dollarization would let a country im-
8 port monetary stability, thereby bringing inflation
9 and interest rates down toward the levels of the
10 United States;

11 (7) official dollarization would make it impos-
12 sible for governments to print domestic currency to
13 pay for government programs, thereby promoting
14 fiscal discipline;

15 (8) official dollarization would make it easier
16 for people to conduct financial transactions in the
17 currency they use for daily commerce, thereby pro-
18 moting deeper financial markets;

19 (9) lower inflation, interest rates, and inflation
20 and interest-rate volatility, greater fiscal discipline,
21 and deeper financial markets would increase long-
22 term economic growth and raise living standards in
23 emerging market countries;

24 (10) by increasing trade and investment flows
25 and decreasing the need for foreign assistance;

1 greater economic growth and higher living standards
2 abroad would serve the interests of the United
3 States;

4 (11) countries that become officially dollarized
5 would lose seigniorage (the profit from issuing a cur-
6 rency) and this is a significant barrier to official
7 dollarization;

8 (12) official dollarization would increase the sei-
9 gniorage earnings of the United States;

10 (13) it would be mutually beneficial for the
11 United States to encourage official dollarization by
12 offering to share with countries that become offi-
13 cially dollarized a portion of the extra seigniorage
14 earnings that the United States would earn; and

15 (14) encouraging official dollarization com-
16 plements ongoing efforts by the United States to
17 strengthen the international financial architecture.

18 (b) STATEMENT OF POLICY.—It is the policy of the
19 United States that—

20 (1) the Federal Reserve System has no obliga-
21 tion to act as a lender of last resort to the financial
22 systems of dollarized countries;

23 (2) the Federal Reserve System has no obliga-
24 tion to consider the economic conditions of dollarized

1 countries when formulating or implementing mone-
 2 tary policy;

3 ~~(3)~~ the supervision of financial institutions in
 4 dollarized countries remains the responsibility of
 5 those countries; and

6 ~~(4)~~ in the absence of certification by the Sec-
 7 retary of the Treasury under section ~~3~~, countries are
 8 free to dollarize unilaterally.

9 **SEC. 3. CERTIFICATION.**

10 (a) IN GENERAL.—The Secretary of the Treasury (in
 11 this Act referred to as the “Secretary”) may certify a
 12 country as officially dollarized, after consideration of
 13 whether the country has—

14 (1) ceased issuing a domestic paper currency;

15 (2) destroyed the materials (such as plates and
 16 dies) used to produce such currency;

17 (3) extinguished a substantial portion of the do-
 18 mestic currency in circulation, with plans to extin-
 19 guish as much of it as feasible;

20 (4) ended the legal tender status of the domes-
 21 tic currency;

22 (5) granted legal tender status to the United
 23 States dollar;

24 (6) ceased accepting domestic currency, except
 25 in exchange for dollars;

1 (7) ceased making government payments in the
2 domestic currency;

3 (8) substantially redenominated its prices, as-
4 sets, and liabilities in dollars;

5 (9) either opened its banking system to foreign
6 competition or met international banking standards
7 (such as those described in the Core Principles for
8 Effective Banking Supervision issued by the Basle
9 Committee on Banking Supervision of the Bank for
10 International Settlements);

11 (10) engaged in advance consultations with the
12 Secretary to determine whether the country is a
13 good candidate for official dollarization; and

14 (11) cooperated with the United States regard-
15 ing the prevention of money laundering and counter-
16 feiting.

17 (b) OTHER CONSIDERATIONS.—In deciding whether
18 to certify a country as officially dollarized under this sec-
19 tion, the Secretary may consider any additional factors
20 that the Secretary deems relevant.

21 (c) DECISION BY SECRETARY.—The absence of any
22 1 or more of the considerations described in subsection
23 (a) or (b) does not preclude the Secretary from certifying
24 a country as officially dollarized.

1 (d) ~~STATEMENT BY SECRETARY.~~—The Secretary
 2 shall issue a written statement upon certification of a
 3 country under this section that explains why that country
 4 has been certified. The Secretary may not certify United
 5 States territories or commonwealths as officially
 6 dollarized.

7 **SEC. 4. PAYMENTS.**

8 (a) ~~IN GENERAL.~~—Starting with the first business
 9 day of the fourth full calendar month following the date
 10 of certification of a country under section 3, the Secretary
 11 shall, every 3 calendar months, pay a country certified
 12 under section 3 an amount equal to the following:
 13 ~~(C)(i)(25%)(P2/P1)(85%).~~

14 (b) ~~DEFINITIONS.~~—In this Act the following defini-
 15 tions shall apply:

16 (1) “C” = the lesser of—

17 (A) the dollar amount of Federal Reserve
 18 Notes that the country receiving the payment
 19 acquired from the Federal Reserve System for
 20 purposes of official dollarization under this Act;
 21 or

22 (B) the dollar value of the domestic cur-
 23 rency in circulation in the country receiving the
 24 payment prior to the certification of that coun-
 25 try under section 3.

1 (2) “i” = average yield to maturity on 90-day
 2 Treasury bills in the most recent full 3-month cal-
 3 endar period occurring before the date of payment
 4 under subsection (a); except that if 90-day Treasury
 5 bills are discontinued, the Secretary may substitute
 6 an appropriate alternative interest rate.

7 (3) “P2” = the nonseasonally adjusted United
 8 States City Average All Items Consumer Price Index
 9 for All Urban Consumers (referred to as “CPI-U”)
 10 for the most recent month occurring before the date
 11 of payment under subsection (a) for which data are
 12 available; except that if this price measure is discon-
 13 tinued or, in the judgment of the Secretary, altered
 14 in a manner that is materially adverse to the inter-
 15 ests of the United States, the Secretary may, after
 16 consultation with the Bureau of Labor Statistics,
 17 substitute an appropriate alternative index.

18 (4) “P1” = the nonseasonally adjusted United
 19 States City Average All Items Consumer Price Index
 20 for All Urban Consumers (CPI-U) for the month oc-
 21 curring before the date of certification under section
 22 3; except that if this price measure is discontinued
 23 or, in the judgment of the Secretary, altered in a
 24 manner that is materially adverse to the interests of
 25 the United States, the Secretary may, after con-

1 sultation with the Bureau of Labor Statistics, sub-
 2 stitute an appropriate alternative index.

3 ~~(c) FAITH OF THE UNITED STATES GOVERNMENT.—~~

4 ~~Except as otherwise provided in this Act, the faith of the~~
 5 ~~United States Government is pledged to pay, in legal ten-~~
 6 ~~der, any payments due under this Act.~~

7 ~~(d) SOURCE OF FUNDS.—~~The Secretary may make
 8 payments under this Act out of revenue from deposits of
 9 earnings by Federal Reserve Banks.

10 ~~(e) REDUCTIONS IN PAYMENTS.—~~If, in the judgment
 11 of the Secretary, the amount of dollars in circulation in
 12 a certified country is such that payments under this Act
 13 would impose a net loss of revenue on the United States
 14 Government, the Secretary may reduce the payment, but
 15 only after the Secretary has issued a written public state-
 16 ment explaining the reasons for doing so.

17 **SEC. 5. PREVIOUSLY DOLLARIZED COUNTRIES.**

18 ~~(a) IN GENERAL.—~~

19 (1) ~~LIMITATION.—~~The Republic of the Marshall
 20 Islands, the Federated States of Micronesia, the Re-
 21 public of Palau, Panama, East Timor, the Turks
 22 and Caicos Islands, and the British Virgin Islands
 23 may not be certified as officially dollarized or issued
 24 payments under this Act until 10 percent of the
 25 combined quarterly payments made to countries

1 other than those listed in this paragraph equals or
 2 exceeds the total combined quarterly payments that
 3 would be made to the countries listed in this para-
 4 graph upon their being certified.

5 (2) PAYMENT CALCULATION.—Upon certifi-
 6 cation under section 3, each of the countries listed
 7 in paragraph (1) shall receive payments in accord-
 8 ance with section 4, except that for purposes of the
 9 countries listed in paragraph (1), “C” = (4%)(Y),
 10 where “Y” = nominal dollar gross domestic product
 11 for the country receiving the payment, as calculated
 12 by the World Bank (or other recognized statistical
 13 authority), as of September 30, 1999, for calendar
 14 year 1997.

15 **SEC. 6. PAYMENT CANCELLATION.**

16 (a) IN GENERAL.—The United States shall cease
 17 making payments to a country under this Act if the
 18 United States declares war on the country, or if the Sec-
 19 retary issues a written public statement that the country
 20 is no longer officially dollarized in accordance with this
 21 Act, which statement shall list the reasons for such a find-
 22 ing.

23 (b) CONSIDERATIONS.—In making a determination
 24 under this section, the Secretary shall consider those fac-

1 tors listed in section 3(a) and any additional factors that
 2 the Secretary deems relevant.

3 **SEC. 7. REGULATIONS.**

4 The Secretary and the Board of Governors of the
 5 Federal Reserve System may issue regulations appropriate
 6 to carry out this Act.

7 **SEC. 8. EXPENSES.**

8 Amounts to pay necessary expenses to make pay-
 9 ments under this Act are appropriated to the Secretary
 10 of the Treasury.

11 **SECTION 1. SHORT TITLE.**

12 *This Act may be cited as the “International Monetary*
 13 *Stability Act of 2000”.*

14 **SEC. 2. FINDINGS; STATEMENT OF POLICY.**

15 *(a) FINDINGS.—Congress finds that—*

16 *(1) monetary stability is a prerequisite for*
 17 *strong long-term economic growth and increasing*
 18 *standards of living;*

19 *(2) many emerging market countries lack mone-*
 20 *tary stability and have therefore suffered economic*
 21 *and financial problems that suppress economic*
 22 *growth and living standards, including financial fra-*
 23 *gility, inflation expectations that are built into labor*
 24 *markets, and high and volatile inflation rates and in-*
 25 *terest rates;*

1 (3) many emerging market countries have used
2 pegged exchange rate systems to try to foster mone-
3 tary stability and have experienced temporary peri-
4 ods of higher economic growth and lower inflation fol-
5 lowed by drastic balance of payments problems, steep
6 devaluations, and major losses in international re-
7 serves;

8 (4) emerging market countries that have adopted
9 currency board systems have enjoyed higher rates of
10 economic growth and lower interest rates, although
11 interest rates have remained higher for loans denomi-
12 nated in the domestic currency than in the anchor
13 currency;

14 (5) since the financial and economic crisis that
15 struck Asia in 1997, there has been growing inter-
16 national interest in official dollarization, whereby a
17 country would substantially or totally eliminate its
18 domestic currency and adopt the United States dollar
19 as legal tender;

20 (6) official dollarization would let a country im-
21 port monetary stability, thereby bringing inflation
22 and interest rates down toward the levels of the
23 United States;

24 (7) official dollarization would make it impos-
25 sible for governments to print domestic currency to

1 *pay for government programs, thereby promoting fis-*
2 *cal discipline;*

3 (8) *official dollarization would make it easier for*
4 *people to conduct financial transactions in the cur-*
5 *rency they use for daily commerce, thereby promoting*
6 *deeper financial markets;*

7 (9) *lower inflation, interest rates, and inflation*
8 *and interest-rate volatility, greater fiscal discipline,*
9 *and deeper financial markets would increase long-*
10 *term economic growth and raise living standards in*
11 *emerging market countries;*

12 (10) *by increasing trade and investment flows*
13 *and decreasing the need for foreign assistance, greater*
14 *economic growth and higher living standards abroad*
15 *would serve the interests of the United States;*

16 (11) *countries that become officially dollarized*
17 *would lose seigniorage (the profit from issuing a cur-*
18 *rency) and this is a significant barrier to official*
19 *dollarization;*

20 (12) *official dollarization would increase the sei-*
21 *gniorage earnings of the United States;*

22 (13) *it would be mutually beneficial for the*
23 *United States to encourage official dollarization by*
24 *offering to share with countries that become officially*

1 *dollarized a portion of the extra seigniorage earnings*
 2 *that the United States would earn; and*

3 (14) *encouraging official dollarization com-*
 4 *plements ongoing efforts by the United States to*
 5 *strengthen the international financial architecture.*

6 (b) *STATEMENT OF POLICY.—It is the policy of the*
 7 *United States that—*

8 (1) *the Federal Reserve System has no obligation*
 9 *to act as a lender of last resort to the financial sys-*
 10 *tems of dollarized countries;*

11 (2) *the Federal Reserve System has no obligation*
 12 *to consider the economic conditions of dollarized*
 13 *countries when formulating or implementing mone-*
 14 *tary policy;*

15 (3) *the supervision of financial institutions in*
 16 *dollarized countries remains the responsibility of*
 17 *those countries; and*

18 (4) *in the absence of certification by the Sec-*
 19 *retary of the Treasury under section 3, countries are*
 20 *free to dollarize unilaterally.*

21 **SEC. 3. CERTIFICATION.**

22 (a) *IN GENERAL.—The Secretary of the Treasury (re-*
 23 *ferred to in this Act as the “Secretary”) may certify a for-*
 24 *eign country as officially dollarized, after consideration of*
 25 *whether the country has—*

1 (1) *ceased issuing a domestic paper currency;*

2 (2) *destroyed the materials (such as plates and*
3 *dies) used to produce such currency;*

4 (3) *extinguished a substantial portion of the do-*
5 *mestic currency in circulation, with plans to extin-*
6 *guish as much of that currency as feasible;*

7 (4) *ended the legal tender status of the domestic*
8 *currency;*

9 (5) *granted legal tender status to the United*
10 *States dollar;*

11 (6) *ceased accepting domestic currency, except in*
12 *exchange for United States dollars;*

13 (7) *ceased making government payments in the*
14 *domestic currency;*

15 (8) *substantially redenominated its prices, assets,*
16 *and liabilities in United States dollars;*

17 (9) *either opened its banking system to foreign*
18 *competition or met international banking standards*
19 *(such as those described in the Core Principles for Ef-*
20 *fective Banking Supervision issued by the Basle Com-*
21 *mittee on Banking Supervision of the Bank for Inter-*
22 *national Settlements);*

23 (10) *engaged in advance consultations with the*
24 *Secretary to determine whether the country is a good*
25 *candidate for official dollarization; and*

1 (11) *cooperated with the United States regarding*
 2 *the prevention of money laundering and counter-*
 3 *feiting.*

4 (b) *OTHER CONSIDERATIONS.—In deciding whether to*
 5 *certify a country as officially dollarized under this section,*
 6 *the Secretary may consider any additional factors that the*
 7 *Secretary deems relevant.*

8 (c) *DECISION BY SECRETARY.—The absence of any 1*
 9 *or more of the considerations described in subsection (a)*
 10 *or (b) does not preclude the Secretary from certifying a*
 11 *country as officially dollarized.*

12 (d) *STATEMENT BY SECRETARY.—The Secretary shall*
 13 *issue a written statement upon certification of a country*
 14 *under this section that explains why that country has been*
 15 *certified. The Secretary may not certify United States terri-*
 16 *ories or commonwealths as officially dollarized.*

17 **SEC. 4. PAYMENTS.**

18 (a) *IN GENERAL.—*

19 (1) *ELIGIBILITY.—A country shall not be eligible*
 20 *for payments under this section until the first busi-*
 21 *ness day of the 121st full calendar month following*
 22 *the date of certification of the country under section*
 23 *3.*

24 (2) *QUARTERLY PAYMENTS.—Starting with the*
 25 *first business day of the 124th full calendar month*

1 following the date of certification of a country under
 2 section 3, the Secretary shall, every 3 calendar
 3 months, pay a country certified under section 3 an
 4 amount equal to the following: $(C)(i1)(25\%)(P2/$
 5 $P1)(85\%)$.

6 (3) LUMP SUM PAYMENT.—On the first business
 7 day of the 121st full calendar month following the
 8 date of certification of a country under section 3, the
 9 Secretary shall pay a country that has been continu-
 10 ously certified for 120 months under section 3 an
 11 amount equal to the following: $(C)(i2)(850\%)(P3/$
 12 $P1)(1+i3)^{4.875}$.

13 (b) DEFINITIONS.—In this Act:

14 (1) “C” = the lesser of—

15 (A) the dollar amount of Federal Reserve
 16 Notes that the country receiving the payment ac-
 17 quired from the Federal Reserve System for pur-
 18 poses of official dollarization under this Act; or

19 (B) the dollar value of the domestic cur-
 20 rency in circulation in the country receiving the
 21 payment prior to the certification of that coun-
 22 try under section 3.

23 (2) “i1” = average yield to maturity on 90-day
 24 Treasury bills in the most recent full 3-month cal-
 25 endar period occurring before the date of payment

1 *under subsection (a)(2), except that if 90-day Treas-*
 2 *ury bills are discontinued, the Secretary may sub-*
 3 *stitute an appropriate alternative interest rate.*

4 (3) “i2” = *average yield to maturity on 90-day*
 5 *Treasury bills in the most recent full 120-month cal-*
 6 *endar period occurring before the date of payment*
 7 *under subsection (a)(3), except that if 90-day Treas-*
 8 *ury bills are discontinued, the Secretary may sub-*
 9 *stitute an appropriate alternative interest rate.*

10 (4) “i3” = *average yield to maturity on 10-year*
 11 *Treasury bonds in the 120-month calendar period oc-*
 12 *curring before the date of payment under subsection*
 13 *(a)(3), except that if 10-year Treasury bonds are dis-*
 14 *continued, the Secretary may substitute an appro-*
 15 *priate alternative interest rate.*

16 (5) “P1” = *the nonseasonally adjusted United*
 17 *States City Average All Items Consumer Price Index*
 18 *for All Urban Consumers (referred to as “CPI-U”)*
 19 *for the month occurring before the date of certification*
 20 *under section 3, except that if this price measure is*
 21 *discontinued or, in the judgment of the Secretary, al-*
 22 *tered in a manner that is materially adverse to the*
 23 *interests of the United States, the Secretary may,*
 24 *after consultation with the Bureau of Labor Statis-*
 25 *tics, substitute an appropriate alternative index.*

1 (6) “P2” = the nonseasonally adjusted United
2 *States City Average All Items Consumer Price Index*
3 *for All Urban Consumers (referred to as “CPI–U”)*
4 *for the most recent month occurring before the date of*
5 *payment under subsection (a)(2) for which data are*
6 *available, except that if this price measure is discon-*
7 *tinued or, in the judgment of the Secretary, altered in*
8 *a manner that is materially adverse to the interests*
9 *of the United States, the Secretary may, after con-*
10 *sultation with the Bureau of Labor Statistics, sub-*
11 *stitute an appropriate alternative index.*

12 (7) “P3” = the average nonseasonally adjusted
13 *United States City Average All Items Consumer Price*
14 *Index for All Urban Consumers (referred to as “CPI–*
15 *U”) for the most recent full 120 calendar months oc-*
16 *curing before the date of payment under subsection*
17 *(a)(3) for which data are available, except that if this*
18 *price measure is discontinued or, in the judgment of*
19 *the Secretary, altered in a manner that is materially*
20 *adverse to the interests of the United States, the Sec-*
21 *retary may, after consultation with the Bureau of*
22 *Labor Statistics, substitute an appropriate alter-*
23 *native index.*

1 (c) *SOURCE OF FUNDS.*—*The Secretary may make*
 2 *payments under this Act out of revenue from any funds*
 3 *paid to the Treasury by Federal Reserve Banks.*

4 (d) *REDUCTIONS IN PAYMENTS.*—*If, in the judgment*
 5 *of the Secretary, the amount of United States dollars in*
 6 *circulation in a certified country is such that payments*
 7 *under this Act would impose a net loss of revenue on the*
 8 *United States Government, the Secretary may reduce the*
 9 *payment, but only after the Secretary has issued a written*
 10 *public statement explaining the reasons for doing so.*

11 **SEC. 5. PREVIOUSLY DOLLARIZED COUNTRIES.**

12 (a) *LIMITATION.*—*The Republic of the Marshall Is-*
 13 *lands, the Federated States of Micronesia, the Republic of*
 14 *Palau, Panama, East Timor, the Turks and Caicos Islands,*
 15 *the Republic of Ecuador, and the British Virgin Islands*
 16 *may not be issued payments under this Act until 10 percent*
 17 *of the payments made to countries other than those listed*
 18 *in this subsection equals or exceeds the total payments that*
 19 *would be made to the countries listed in this subsection.*

20 (b) *PAYMENT CALCULATION.*—*Upon certification*
 21 *under section 3, each of the countries listed in subsection*
 22 *(a) shall receive payments in accordance with section 4, ex-*
 23 *cept that for purposes of the countries listed in subsection*
 24 *(a) of this section, “C” equals (4%)(Y), where “Y” equals*
 25 *nominal dollar gross domestic product for the country re-*

1 *ceiving the payment, as calculated by the World Bank (or*
2 *other recognized statistical authority), as of September 30,*
3 *1999, for calendar year 1997.*

4 **SEC. 6. DECERTIFICATION AND PAYMENT CANCELLATION.**

5 *(a) IN GENERAL.—The Secretary shall decertify and*
6 *cease making payments to a country under this Act if the*
7 *United States declares war on the country, or if the Sec-*
8 *retary determines that the country is no longer officially*
9 *dollarized in accordance with this Act and issues a written*
10 *public statement to that effect that lists the reasons for such*
11 *determination.*

12 *(b) CONSIDERATIONS.—In making a determination*
13 *under this section, the Secretary shall consider the factors*
14 *listed in section 3(a) and any additional factors that the*
15 *Secretary determines to be relevant.*

16 **SEC. 7. REGULATIONS.**

17 *The Secretary and the Board of Governors of the Fed-*
18 *eral Reserve System may issue regulations appropriate to*
19 *carry out this Act.*

20 **SEC. 8. EXPENSES.**

21 *There are authorized to be appropriated to the Sec-*
22 *retary such amounts as may be necessary for expenses and*
23 *payments under this Act.*

Calendar No. 705

106TH CONGRESS
2D SESSION

S. 2101

[Report No. 106-354]

A BILL

To promote international monetary stability and to
share seigniorage with officially dollarized coun-
tries.

JULY 24 (legislative day, JULY 21), 2000

Reported with an amendment